

## The complexity classification of intangible assets

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### Abstract

*This paper tries to solve the complex problems of arising in the definition and delimitation of the intangible assets. Over time the technology develops and resizes continuously and along with it redefine in a very short time the theoretical and practical concepts of the economy. From the economic point of view an asset can be defined as a resource controlled by the enterprise as a result of past transactions or investments, and which is expected to generate future economic benefits. Intangible assets are the most important economic resources of an entity because in terms of their analysis of the technical, material and financial – of her evolution over time and the ability of continuous development. The main purpose of this article is to analyse the research carried out for the purposes of the definition and delimitation of intangible assets.*

**Key words:** intangible assets, economic value, complexity, intellectual capital, new economy, intellectual property

### 1. Introduction

Thanks to continuous development and resizing technology, theoretical and practical concepts of economics are redefined in a very short time. Because of this intellectual work products are the ones that prevail for each nation.

Elements such as: scientific and technological research, education, sophisticated software, advanced telecommunications and finance, have become key sources of labour tomorrow, but nothing is more important than organization of self – knowledge.

From the economic point of view an asset can be defined as a resource controlled by the enterprise as a result of past transactions or investments, and which is expected to generate future economic benefits.

In accordance with the Institute of Chartered Accountants Approved (ICAA) in Canada, the assets are considered to be economic resources over which the company exercises control as a result of the operations, and other facts that are likely to provide future economic benefits to the entity.<sup>12</sup>

Intangible assets are the most important economic resources of an entity because in terms of their analysis of the technical, material and financial – of her evolution over time and the ability of continuous development.

The emergence of these items is due to the need for rating, accounting and the capitalization of intangible items ideal – in the form of patents for invention, trademarks, designs, copyright, franchisees, software, etc., or in the form of some elements in the direct market competition as well as the process of research-development, quality management, etc. (Cristian Silviu Bănașcu – "intangible assets, intellectual property rights theory and practice assessment –", Editor Economic Tribune, Bucharest, 2005).

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<sup>12</sup> Ion Anghel, Sorin Stan, "The evaluation of intangible assests", page 17, Ed. Iroval, Bucharest, 1998

So those assets can be renamed as a resource of any organization or business entity. They are also called "intangible", "invisible", "intellectual" or "intangible", pointing out the existing knowledge in its various forms among the human capital.

Currently, intellectual capital and intangible assets are the key factor in the profitability of the company, are fundamental to success. In the new economic competition, knowledge assets provide a sustainable competitive advantage.

In today's economy (intangible assets) is based on intellectual capital and raw materials are knowledge and information.

The most exciting part of the theme being addressed is the connectivity between intangible assets and intellectual property.

Intellectual capital of an organization is formed by the human capital (its employees know - how) and its capital structure (organization and intellectual property).

The main components of intellectual capital are human capital (which is the potential value of the intangible assets of the company) and intangible assets and intellectual properties. Good management of human capital may create intangible value for the company.

Tabel no.1

### Intellectual capital and its major components<sup>13</sup>

The potential intangible value	The intangible value	
Human Capital	Intellectual activity	
<ul style="list-style-type: none"> <li>▶ Experience</li> <li>▶ Know – how</li> <li>▶ Abilities</li> <li>▶ Creativity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Programmes</li> <li>▶ Inventions</li> <li>▶ Data bases</li> </ul>	<ul style="list-style-type: none"> <li>▶ Metodologii</li> <li>▶ Documents</li> <li>▶ Graphics, design</li> </ul>
	<p style="text-align: center;"><b>Intellectual property</b></p> <ul style="list-style-type: none"> <li>▶ Patents, copyright</li> <li>▶ Brands, tradeseecrets</li> </ul>	

## 2. Related studies

The term "assets" can be presented from the point of view of both the accounting and assessment work firms. For this reason we can define these intangible assets both in the light of International Accounting Standards, The Financial Reporting Standards, but also in accordance with International Valuation Standards.

As it is presented to us in OMFP 3055/2009 for the approval of the Accounting Regulations compliant with European directives, fixed assets shall comprise those assets intended for use, for a period longer than one year, generating future economic benefits, in order to improve the activities of the economic entities.

Future economic benefits arising from an intangible asset represents the ability to contribute, directly or indirectly, to the cash flows or cash equivalent to the entity (Treasury assets) and may be in the form of cost savings or revenue from the sale of goods or services.

An intangible asset is an identifiable asset, monetary used without physical support in the usage of production or supply of goods or services, to be rented out to third parties or to

<sup>13</sup> Ion Anghel, Sorin Stan, "The evaluation of intangible assests", Ed. Iroval, Bucharest, 1998

use for administrative purposes. (OMFP No. 3055/2009, Section 8.2, paragraph 72) It is an integral part of the fixed assets and can be expressed in the formation expenses, expenses for research-development, concessions, patents, licences, trademarks, computer software etc.

In accordance with IAS 38 – Intangible Assets, an intangible asset is an economic good monetary, identifiable, without physical substance-intangible assets.

The identifiable is justified by the existence of legal and contractual rights, having an economic value and must meet the following conditions:

- a) to be able to bring economic benefits;
- b) resulting from previous events and be permanently under the control of the entity;
- c) cost of the asset to be properly identified;
- d) easily separable and non-transferable.

The severability refers to the ability of some categories of intangible assets to generate revenue. This feature is beneficial for sales, purchases, exchanges, or developments in economic evaluation.

Functionality and the intangible assets highlight is achieved with the help of the class 2 accounts of the general plan of accounts, entitled accounting for fixed assets.

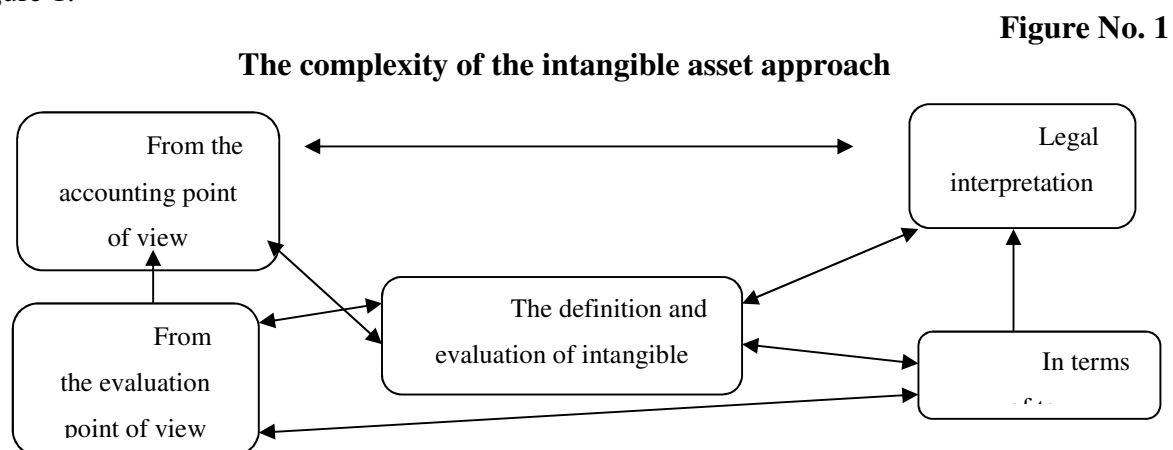
They are divided into three groups as follows:

- ✓ Group 20 – Intangible assests, including the following accounts : 201 Formation expenses, 203 Research and development expenses, 205 Concessions, patents, licenses, trademarks and other similar, 207 Commercial estate and 208 Other intangible assets .
- ✓ Group 28 – Depreciation for property.
- ✓ Group 29 - Provisions for depreciation of the fixed assets.

### 3. Boundaries on research of intangible assets

The present research on intangible assets has sparked multiple controversies, becoming a challenge for economic thinking, and sparked a keen interest in the business.

Due to the complexity of dealing with the issue of the definition of intangible assets and their evaluation can be classified into four areas of major interest, shown schematically in Figure 1.



**Source:** Ion Anghel, Sorin Stan, “The evaluation of intangible assests”, page 16, Editor Iroval, Bucharest, 1998

- a) Through accounting, we find ways of presenting and recording financial information to users, who will refer to this type of asset.

- b) Legal Interpretation should be the first criterion of the intangible assets, because justice is one which defines and regulates the defence and protecting ownership of such property elements.
- c) Intangible Assets are directly involved in the implementation of the companies' profits and therefore taxation was forced to find clear means of taxation of such financial operations – accounting.
- d) Evaluators have always debated the issue of interlink age between the business and the value of intangible assets. Thus the assessment standards and business properties, specific information can be found about the goodwill or intangible assets individualized about.

International Committee for evaluation - IVSC through the general standard of practice in evaluation – GN 4, defines the intangible assets as assets that are highlighted by their properties, not having physical substance.

According to IAS 38 "intangible assets" – an intangible asset is a actively monetary, identified, material, without physical substance with economic value, which is contained in a legal and contractual rights.<sup>14</sup>

Intangibles include all economic values of investment that does not dress up the physical form of the material goods, used in your own organisation or entrusted to third parties to be used by them.<sup>15</sup>

Even if they don't dress up a concrete material form, intangible assets are valuable to a company and can be critical to the success or failure in the long run.

For example, an international renowned company like Coke Cola, would not be as profitable if the brand name would not have been recognized all over the world.

Another example just as valuable intangible property, the row is "Barbie Doll" that along with the entire system material built around the property, valued at \$ 2 billion.

In many Member countries of the Organisation for economic cooperation and development, investing in more intangible assets increased significantly.

In the vision of this organization, intangible assets relate to the assets or property of knowledge or intellectual capital.

A first classification of this organization shares the intangible assets into three groups:

- ✓ computerized information (software and databases);
- ✓ innovative property (such as copyright, designs or models, trademarks, and scientific research and development and unscientific);
- ✓ economic competence (including our own brand, firm specific human capital aspects of advertising and marketing, networks linking individuals and institutions and organisation of know-how, which will increase the efficiency of enterprises).

#### **4. Classification of intangible assets**

According to OMFP no. 3055/2009 for Regulating the European Directives, intangible assets are classified as follows:

- a) formation expenses;
- b) development expenses;
- c) concessions, patents, licences, trademarks and similar rights and assets, except those created internally by the unit;

<sup>14</sup> International Financial Reporting Standards, Practical Guide, page 379, Editor Irecson Institute, Bucharest, 2007

<sup>15</sup> Mihai Ristea, Corina Graziella Dumitru, Corina Ioanăș, Alina Irimescu – "Accounting companies ,, - vol. 1, page 250, Editor Universitară, Bucharest, 2009.

- d) goodwill;
- e) other intangible assets;
- f) advances to suppliers of intangible assets;
- g) intangible assets are included in course of execution.

According to IAS 38 "intangible assets" are recognized as the following components:

- a) development expenses;
- b) patents, licenses, trademarks acquired;
- c) other similar values, including copyrights and other intellectual property rights;
- d) concession received;
- e) positive and negative goodwill acquired;
- f) other intangible assets.

The International Valuation Standards Committee - IVSC through the general standard of practice in evaluation – GN 4, classifies intangible assets as followed.

- a. Assets deriving from rights (franchise agreement);
- b. Assets based on relationship (with clients, suppliers, distributors etc.);
- c. intangible assets grouped (super profit reported assets identified);
- d. Intellectual Property (patent, trademark, industrial property objects).

TEGoVA - European Group of Values Associations, using the European Evaluation Standard of GN 8.12, classifies intangible assets as followed:

- 1. Goodwill – your business or intangible assets unallocated;
- 2. Goodwill – personal;
- 3. Identifiable Intangible Assets for business.

These standards are under consideration and other intangible assets of the business such as:-aggregate labour force and qualified;

- favourable contracts;
- contracts or agreements of affiliation;
- favourable lease contracts;
- favourable insurance contracts;
- contracts of employment;
- non-competition agreements;
- customer service;
- allowed;
- technical libraries and collections of newspapers;
- other intangible assets.

In accordance with the "Guide and transfer rates for multinational enterprises and tax administrations" of the Organisation for Economic Cooperation and Development - OECD can make the distinction between technological and intangible assets. Technological intangible assets are based on the ability of an entity to produce goods or provide services, and the marketing is based on the company's relationship with its potential market and trade.

Table No. 2

The structure of a company's intangible property<sup>16</sup>

		TECHNOLOGICAL INTANGIBLE ASSETS	MARKETING INTANGIBLE ASSETS
<b>UNDERLYING ASSET</b>		technology product knowledge the ability of employees <ul style="list-style-type: none"> <li>• management ability</li> </ul> the management system information system computer programs	<ul style="list-style-type: none"> <li>• reputation</li> </ul> credibility bank standing customer lists distribution network contracts relations - partnership
<b>INTELLECTUAL PROPERTY RIGHTS</b>	<b>Registered</b>	<ul style="list-style-type: none"> <li>• patents</li> <li>• models, drawings</li> <li>• copyright</li> </ul>	<ul style="list-style-type: none"> <li>• brands</li> <li>• trade name</li> <li>• franchise</li> </ul>
	<b>Unregistered</b>	<ul style="list-style-type: none"> <li>• know – how informations</li> <li>• manufacturing secrets</li> <li>• improvement projects</li> </ul>	<ul style="list-style-type: none"> <li>• market informations</li> <li>• informations about clients</li> <li>• comercial strategies</li> </ul>

The table shows that technology encompasses the business carried out basic assets shall be based on the existing relationship on the market which have arisen as a result of commercial potential. Intellectual property rights are considered to be a special category of intangible assets. They can be so registrable, legally protected, having a high potential of being traded on the market, as well as non-registered companies can bring profit but are not directly marketable.

Along the way the OECD changes this accounting classification under the following form:

I. From the identifiable criteria we have:

✓ intangibles identifiable (can identify separately): franchise, trademark, copyright, patent, etc.;

✓ Non-identifiable intangible assets separately (you can identify the default nor evaluate): goodwill or goodwill.

<sup>16</sup> Ion Anghel, Sorin Stan, "The evaluation of intangible assests", page 43, Editor Iroval, Bucharest, 1998

II. In accordance with IFRS 3 "Business Combinations", identifiable intangible assets acquired in a business combination may be in turn identified the following classification:

A. intangible assets in the field of marketing.

1. The trademarks, service marks, collective marks and certification marks;
2. Domain names of the Internet;
3. Patterns (colour, shape or unique packaging);
4. Headlines;
5. Agreements (clauses) of non-competition;
- 1-5: intangible assets arising from the contractual and legal rights.

B. intangible assets related to customers

6. Customer lists;
7. The portfolio of orders and production are still outstanding;
8. Contracts with customers and related relations;
9. Non-contractual relationships with customers;

C. Intangible assets related arts

10. Drama, Opera and ballet performances;
11. Books, magazines, newspapers and other literary works;
12. Works such as musical compositions, texts of songs, commercials;
13. Paintings and photos;
14. Video and audio, including cinema films, music videos and television programs;

D. Intangible assets relating to contract

15. Licenses, copyrights, and novation agreements;
16. Advertising contracts, construction, management, service or supply;
17. Rental/leasing contract/lease;
18. Building permits;
19. Franchise contracts;
20. Operating and broadcasting rights;
21. Rights of use such as: mining, water, mouse over, logging and road clearance;
22. Service contracts, such as contracts of mortgage services;
23. Contracts of employments which are advantageous to the employer in the event of a contractual wage set lower than market wages;

E. intangible assets technological

24. Patented technology;
25. Computer programs and integrated circuits;
26. Non-proprietary technology;
27. Database;
28. Trade secrets, such as formulas, procedures, secret recipes.

All of the intangible assets from the contractual and legal rights form part and items 7, 8, 28, and those listed from 10 to 25.

Items 6, 9, 26 and 27 are intangible assets that come from a different category of rights and retain the character of severability, fits the definition of intangible assets.

III. After the acquisition that can be internally or externally, we kept in mind that the acquisition may concern a particular asset or group of assets.



Intangible assets may be heritage through the purchase, by the effort of the company.

IV. In relation to the expected period of benefit which may be undefined or restricted (by law or the contract between the parties, human factors or economic, etc.).

V. Separability and trading criteria classifies intangible assets into : intangible assets that may or may not be sold or transferred.

According to United States Accounting Standards FASB (Statement of Financial Accounting Standards) since 2001<sup>17</sup>, intangible assets are classified as follows:

1. Intangible assets relating to the business of marketing;
2. Intangible assets associated with the consumer;
3. Intangible assets associated with artistic activities;
4. Intangible assets associated with the contracts;
5. Intangible assets associated with the technology;
6. Goodwill (goodwill or reputation of the person or business).

The Brooking Institution in the United States classifies intangible assets into three categories<sup>18</sup>. The classification is made according to the control of the assets and the possibility of the sale of their assets. Thus we have:

- a. Assets that are controlled by the organisation owning and which can be sold individually (invention patents, trademarks, copyrights);
- b. Assets that are controlled by the organisation owning and which cannot be sold individually (research-development projects unfinished, specialized technological processes, specific management techniques);
- c. Assets that cannot be fully controlled by the owner (the educated labour force).

## 5. Conclusions

Analysing all classifications presented to identify advantages and drawbacks depending on the manner in which they were drawn up.

Note that the most important are the approaches of International Accounting Standards, international financial reporting Standards and the International standards and assessment.

However, you don't have to take any opinion advice companies, mostly because they offer us solutions gained through continuous practice.

Therefore any specialist you should take into account all the opinions obtained from the analysis of the definition, recognition and classification of intangible assets and take the model that has the most items in support of the arguments discussed in the research.

Factors such as the perpetual and permanent development of the technology and the operational versatility of the enterprise will always emphasize the many concepts of defining and ranking of intangible assets.

We have to be always one step ahead of technology.

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